



馬聯香港有限公司

MUI Hong Kong Ltd.

*(Incorporated in the Cayman Islands with limited liability)*

INTERIM REPORT 2002

## UNAUDITED INTERIM RESULTS

The Board of Directors of MUI Hong Kong Ltd. (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2002 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>For the six months ended 30th June,</b>	
		<b>2002</b>	<b>2001</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
TURNOVER	2	<b>337,755</b>	382,768
Cost of sales		<b>(267,148)</b>	(303,495)
Gross profit		<b>70,607</b>	79,273
Other revenue	3	<b>8,437</b>	13,728
Selling and promotional expenses		<b>(11,525)</b>	(18,662)
Administrative expenses		<b>(49,009)</b>	(51,820)
Provision for impairment of goodwill		—	(16,996)
Provision for impairment of land and buildings		—	(71,884)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	2, 4	<b>18,510</b>	(66,361)
Finance costs	5	<b>(3,327)</b>	(3,987)
Share of profits less losses of associates		<b>2,638</b>	(1,727)
Share of losses of jointly-controlled entities		<b>(204)</b>	(297)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>17,617</b>	(72,372)
Tax	6	<b>(2,597)</b>	(2,168)
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>15,020</b>	(74,540)
Minority interests		<b>(6,398)</b>	(12,185)
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>8,622</b>	(86,725)
<b>EARNINGS/(LOSS) PER SHARE</b>			
— Basic	7	<b>0.36 cent</b>	(6.29 cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

	30th June, 2002 (Unaudited)	31st December, 2001 (Audited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Fixed assets	159,430	155,729
Investment properties	7,074	10,505
Properties under development	3,817	3,806
Interests in jointly-controlled entities	11,821	12,024
Interests in associates	100,196	92,129
Long term investments	21,304	20,643
Other assets	600	600
Pledged bank balances and time deposits	10,486	8,313
	<b>314,728</b>	<b>303,749</b>
<b>CURRENT ASSETS</b>		
Due from related companies	5,245	3,206
Properties held for sale	117,137	122,898
Properties under development held for sale	87,546	102,137
Short term investments	169	174
Inventories	1,415	1,688
Trade receivables	9 50,035	43,728
Other receivables	41,523	37,395
Client trust bank balances	8,073	8,908
Cash and cash equivalents	127,284	124,302
	<b>438,427</b>	<b>444,436</b>
<b>CURRENT LIABILITIES</b>		
Due to related companies	38	738
Tax payable	15,043	21,841
Finance lease payables	32	305
Trade payables, other payables and accruals	10 147,472	152,213
Interest-bearing bank borrowings	152,381	140,410
Non-interest-bearing other borrowings	16,710	16,934
	<b>331,676</b>	<b>332,441</b>
<b>NET CURRENT ASSETS</b>	<b>106,751</b>	<b>111,995</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>421,479</b>	<b>415,744</b>
<b>NON-CURRENT LIABILITIES</b>		
Finance lease payables	86	90
Interest-bearing bank borrowings	15,000	27,428
	<b>15,086</b>	<b>27,518</b>
Minority interests	134,445	134,554
	<b>271,948</b>	<b>253,672</b>
<b>CAPITAL AND RESERVES</b>		
Issued capital	482,910	482,910
Reserves	(210,962)	(229,238)
	<b>271,948</b>	<b>253,672</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<b>11,781</b>	(16,433)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	<b>(9,902)</b>	5,688
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>11,662</b>	(41,750)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>13,541</b>	(52,495)
Cash and cash equivalents at beginning of period	<b>96,495</b>	130,912
Effect of foreign exchange adjustments, net	<b>3,252</b>	(2,690)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>113,288</b>	75,727
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>127,284</b>	95,846
Bank overdrafts	<b>(13,996)</b>	(20,119)
	<b>113,288</b>	75,727

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June, 2002*

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Subscription rights reserve (Unaudited) <i>HK\$'000</i>	Exchange realignments reserve (Unaudited) <i>HK\$'000</i>	Goodwill reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1st January, 2002	482,910	3,423	2,905	(38,457)	(78)	(197,031)	253,672
Exchange realignments and net gains not recognised in profit and loss account	—	—	—	9,654	—	—	9,654
Net profit for the period	—	—	—	—	—	8,622	8,622
At 30th June, 2002	<u>482,910</u>	<u>3,423</u>	<u>2,905</u>	<u>(28,803)</u>	<u>(78)</u>	<u>(188,409)</u>	<u>271,948</u>
At 1st January, 2001	275,948	132,375	—	(33,419)	(17,074)	(71,797)	286,033
Exchange realignments and net losses not recognised in profit and loss account	—	—	—	(5,423)	—	—	(5,423)
Impairment of goodwill	—	—	—	—	16,996	—	16,996
Net loss for the period	—	—	—	—	—	(86,725)	(86,725)
At 30th June, 2001	<u>275,948</u>	<u>132,375</u>	<u>—</u>	<u>(38,842)</u>	<u>(78)</u>	<u>(158,522)</u>	<u>210,881</u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2002

## 1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”. The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2001, except that the Group has adopted the following recently issued and revised SSAPs:

SSAP 1 (Revised)	:	“Presentation of financial statements”
SSAP 11 (Revised)	:	“Foreign currency translation”
SSAP 15 (Revised)	:	“Cash flow statements”
SSAP 25 (Revised)	:	“Interim Financial Reporting”
SSAP 34	:	“Employee benefits”

As a result of adopting these new and revised SSAPs, a condensed consolidated statement of changes in equity is now included in the interim financial statements and the condensed consolidated cash flow statement and the segment information are revised in accordance with the new requirements of these new and revised SSAPs.

Certain comparative amounts in the condensed consolidated cash flow statement and the segment information have been reclassified to conform with the current period presentation.

## 2. SEGMENT INFORMATION

An analysis of the Group’s segment revenue and segment results by business segments and geographical segments are summarised as follows:

### (i) Business segments

#### (a) Revenue

	For the six months ended 30th June, 2002			
	Sales to external customers (Unaudited) HK\$’000	Intersegment sales (Unaudited) HK\$’000	Other revenue (Unaudited) HK\$’000	Total (Unaudited) HK\$’000
Travel and travel-related services	260,055	—	3,291	263,346
Property development and agency services	62,684	—	1,663	64,347
Hotel investment and management	14,134	—	—	14,134
Financial services	839	—	988	1,827
Corporate and other businesses	43	2,131	644	2,818
	337,755	2,131	6,586	346,472
Eliminations	—	(2,131)	—	(2,131)
	337,755	—	6,586	344,341

For the six months ended 30th June, 2001

	Sales to external customers (Unaudited) HK\$'000	Intersegment sales (Unaudited) HK\$'000	Other revenue (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Travel and travel-related services	301,832	—	2,518	304,350
Property development and agency services	69,869	—	4,873	74,742
Hotel investment and management	8,956	—	—	8,956
Financial services	1,010	—	3,854	4,864
Corporate and other businesses	1,101	2,314	967	4,382
	382,768	2,314	12,212	397,294
Eliminations	—	(2,314)	—	(2,314)
	382,768	—	12,212	394,980

(b) Results

For the six months ended 30th June,

	2002		2001			
Segment	Segment results	Eliminations	Total	Segment results	Eliminations	Total
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Travel and travel-related services	2,587	—	2,587	(2,586)	—	(2,586)
Property development and agency services	16,958	—	16,958	30,802	—	30,802
Hotel investment and management	445	—	445	(6,493)	—	(6,493)
Financial services	(751)	—	(751)	644	—	644
Corporate and other businesses	1,680	(564)	1,116	(86,780)	(154)	(86,934)
	20,919	(564)	20,355	(64,413)	(154)	(64,567)
Interest income and dividend income			1,851			1,516
Unallocated expenses			(3,696)			(3,310)
Profit/(loss) from operating activities			18,510			(66,361)

(ii) Geographical segments

(a) Revenue

<i>For the six months ended 30th June, 2002</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong SAR</i>	256,265	526	4,812	261,603
<i>Elsewhere in the PRC</i>	67,465	—	1,706	69,171
<i>Australia</i>	13,943	—	—	13,943
<i>Others</i>	82	408	68	558
	<u>337,755</u>	<u>934</u>	<u>6,586</u>	<u>345,275</u>
<i>Eliminations</i>	—	(934)	—	(934)
	<u>337,755</u>	<u>—</u>	<u>6,586</u>	<u>344,341</u>

<i>For the six months ended 30th June, 2001</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong SAR</i>	297,818	707	7,300	305,825
<i>Elsewhere in the PRC</i>	75,553	—	4,912	80,465
<i>Australia</i>	8,845	—	—	8,845
<i>Others</i>	552	183	—	735
	<u>382,768</u>	<u>890</u>	<u>12,212</u>	<u>395,870</u>
<i>Eliminations</i>	—	(890)	—	(890)
	<u>382,768</u>	<u>—</u>	<u>12,212</u>	<u>394,980</u>

(b) Results

<i>For the six months ended 30th June,</i>						
	<i>2002</i>			<i>2001</i>		
	<i>Segment results</i>		<i>Total</i>	<i>Segment results</i>		<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong SAR</i>	3,539	—	3,539	(88,913)	—	(88,913)
<i>Elsewhere in the PRC</i>	16,961	—	16,961	30,748	—	30,748
<i>Australia</i>	(342)	—	(342)	(6,227)	—	(6,227)
<i>Others</i>	197	—	197	(175)	—	(175)
	<u>20,355</u>	<u>—</u>	<u>20,355</u>	<u>(64,567)</u>	<u>—</u>	<u>(64,567)</u>



3. OTHER REVENUE

	<i>For the six months ended 30th June,</i>	
	<i>2002</i>	<i>2001</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Income arising from deposits on properties forfeited by purchasers</i>	<i>24</i>	<i>2,909</i>
<i>Visa income</i>	<i>777</i>	<i>839</i>
<i>Commission income</i>	<i>2,057</i>	<i>1,833</i>
<i>Others</i>	<i>3,728</i>	<i>6,631</i>
	<hr/> <i>6,586</i>	<hr/> <i>12,212</i>
 <i>Interest income</i>	 <i>1,253</i>	 <i>1,516</i>
<i>Dividend from unlisted long term investments</i>	<i>598</i>	<i>—</i>
	<hr/> <i>8,437</i>	<hr/> <i>13,728</i>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

*Profit/(loss) from operating activities is arrived at after charging:*

	<i>For the six months ended 30th June,</i>	
	<i>2002</i>	<i>2001</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Depreciation:</i>		
<i>Owned fixed assets</i>	<i>3,415</i>	<i>4,713</i>
<i>Leased fixed assets</i>	<i>257</i>	<i>328</i>
	<hr/> <i>3,672</i>	<hr/> <i>5,041</i>
 <i>Amortisation of goodwill</i>	 <i>145</i>	 <i>—</i>
	<hr/> <i>145</i>	<hr/> <i>—</i>

5. *FINANCE COSTS*

	<i>For the six months ended 30th June,</i>	
	<b>2002</b>	2001
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Interest on bank loans and overdrafts wholly repayable within five years</i>	<b>3,319</b>	3,949
<i>Interest on finance leases</i>	<u>8</u>	<u>38</u>
	<b><u>3,327</u></b>	<b><u>3,987</u></b>

6. *TAX*

*No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30th June, 2001: Nil).*

*Taxes on profits assessable elsewhere have been calculated based on existing legislation and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the period arose as follows:*

	<i>For the six months ended 30th June,</i>	
	<b>2002</b>	2001
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Overseas</i>	<b>2,597</b>	2,270
<i>Overprovision in prior year</i>	<u>—</u>	<u>(102)</u>
<i>Tax charge for the period</i>	<b><u>2,597</u></b>	<b><u>2,168</u></b>

7. *EARNINGS/(LOSS) PER SHARE*

*The calculation of the basic earnings/(loss) per share for the period is based on the profit of HK\$8,622,000 (six months ended 30th June, 2001: a loss of HK\$86,725,000) and the 2,414,547,555 shares (six months ended 30th June, 2001: weighted average number of 1,379,741,460 shares) in issue during the period.*

*The diluted earnings/(loss) per share for the periods ended 30th June, 2002 and 2001 has not been shown as the warrants outstanding during these periods had an anti-dilutive effect on the basic earnings/(loss) per share for these periods.*

8. *DIVIDENDS*

*At a meeting of the Board of Directors held on 7th September, 2002, the Directors resolved not to declare an interim dividend in respect of the year ending 31st December, 2002.*

9. *TRADE RECEIVABLES*

*The Group grants credit periods of up to 30 days to its trade customers. Details of the aging analysis of trade receivables are as follows:*

	<b>30th June, 2002 (Unaudited) HK\$'000</b>	<b>31st December, 2001 (Audited) HK\$'000</b>
<i>Current</i>	<b>44,890</b>	39,501
<i>1-3 months</i>	<b>4,821</b>	3,395
<i>Over 3 months</i>	<b>324</b>	832
	<b><u>50,035</u></b>	<b><u>43,728</u></b>

10. *TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS*

*Included in the trade payables, other payables and accruals is a trade payables balance of HK\$19,869,000 (31st December, 2001: HK\$20,392,000). Details of the aging analysis of trade payables are as follows:*

	<b>30th June, 2002 (Unaudited) HK\$'000</b>	<b>31st December, 2001 (Audited) HK\$'000</b>
<i>Current</i>	<b>19,243</b>	19,911
<i>1-3 months</i>	<b>485</b>	320
<i>Over 3 months</i>	<b>141</b>	161
	<b><u>19,869</u></b>	<b><u>20,392</u></b>

## 11. RELATED PARTY TRANSACTIONS

		<i>For the six months ended 30th June,</i>	
		2002	2001
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
<i>Rental income received from:</i>			
<i>MUI Enterprises Limited</i>			
	("MUIEL") (i)	—	334
	Laura Ashley Limited ("LAL") (ii)	43	—
<i>Architectural consultancy fees paid to:</i>			
<i>Shen &amp; Partners Limited</i>			
	("Shen & P") (iii)	707	226
	SRT Design (China) Limited ("SRT (China)") (iii)	209	—
<i>Interest income from Morning</i>			
<i>Star Villa Management</i>			
	Limited ("MVM") (iv)	94	200
	Management fee paid to MVM (v)	128	—
<i>Acquisition of additional interests</i>			
<i>in Morning Star Financial</i>			
	Services Limited ("MSFS") (vi)	<b>8,684</b>	—

### Notes:

- (i) MUIEL is a subsidiary of Malayan United Industries Berhad ("MUI"). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of MUI. Pursuant to a tenancy agreement entered into between the Group and MUIEL, in 2000, the Group leased office area to MUIEL for a period of two years at a total annual rental of HK\$668,000, commencing from 1st April, 2000. The rental charged to MUIEL was determined by reference to open market rental. The Group agreed to terminate the tenancy agreement with MUIEL with effect from 1st January, 2002 and this office area is occupied by the Group as office space from such date onwards.
- (ii) LAL is a wholly-owned subsidiary of Laura Ashley Holdings plc ("LAH"). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of LAH. Pursuant to a tenancy agreement entered into between the Group and LAL, in 2002, the Group leased office area to LAL for a period of two years at a total annual rental of HK\$319,000, commencing from 1st May, 2002. The rental charged to LAL was determined by reference to open market rental.
- (iii) Mr. Edward SHEN, an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of SRT (China). The fees were charged by reference to the prevailing market rates.

- (iv) *MVM is engaged in the property management of Morning Star Villa (“MSV”). Certain Directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2 percent above the Hong Kong dollar prime rate per annum is charged on balances with MVM.*
- (v) *Property management fees paid to MVM represent the property management fees of the vacant units of MSV owned by Jubilation Properties Limited, which is engaged in the development of MSV. The property management fees on unsold units are determined based on half the rate per square foot charged to the other owners of MSV.*
- (vi) *In April 2002, the Company acquired 8,192,500 ordinary shares of MSFS from Firstway International Investment Limited (“Firstway”), a substantial shareholder of the Company, at a consideration of HK\$8,684,050. The purchase consideration was determined by reference to the adjusted unaudited consolidated net asset value of MSFS as at 31st December, 2001. Further details of this transaction are set out in the Company’s press announcement dated 5th March, 2002.*

## 12. CONTINGENT LIABILITIES

	<b>30th June, 2002 (Unaudited) HK\$’000</b>	<b>31st December, 2001 (Audited) HK\$’000</b>
<i>Bank guarantees</i>	<u>372,745</u>	<u>384,755</u>

*Included in bank guarantees is an amount of HK\$364,705,000 (2001: HK\$376,712,000) in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and Morning Star Plaza (“MSP”).*

## 13. CAPITAL COMMITMENTS

	<b>30th June, 2002 (Unaudited) HK\$’000</b>	<b>31st December, 2001 (Audited) HK\$’000</b>
<i>Contracted for:</i>		
<i>Land and construction costs</i>	2,011	15,426
<i>Authorised, but not contracted for:</i>		
<i>Land and construction costs</i>	<u>226,105</u>	<u>202,827</u>
	<u>228,116</u>	<u>218,253</u>

*Included in the above is the amount relating to the development of the Group’s property projects in Zhongshan, the PRC, into a residential and commercial complex.*

In addition to the above, the Group's share of capital commitments of a jointly-controlled entity is as follows:

	<b>30th June, 2002</b>	<b>31st December, 2001</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Contracted, but not provided for</i>	<u><b>1,184</b></u>	<u><b>1,189</b></u>

Save as disclosed above, the Group had no other significant capital commitments at the balance sheet date.

#### 14. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 7th September, 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF FINANCIAL RESULTS

- Group Overview

For the six months ended 30th June, 2002, the Group's consolidated turnover amounted to HK\$337,755,000, a decrease of 11.8% as compared to HK\$382,768,000 for the corresponding period in 2001. For the period under review, the Group achieved a profit from operating activities of HK\$18,510,000 as compared to a loss of HK\$66,361,000 for the corresponding period in 2001. The net profit from ordinary activities attributable to shareholders for the six months ended 30th June, 2002 amounted to HK\$8,622,000, against a net loss of HK\$86,725,000 for the corresponding period in 2001.

The Group's major sources of revenue are from travel and travel-related services and property development and agency services which together account for over 95% of the Group's total revenue. As the customers from these businesses are mainly residents of Hong Kong SAR, the Group is inevitably affected by the prevailing difficult economic conditions in Hong Kong SAR. Deflation continues and unemployment rate increased to 7.8% in July 2002 and is forecast to reach 8.0%

by the end of year 2002. Despite such a challenging economic environment, the Group achieved an improved net profit attributable to shareholders of HK\$8,622,000 for the first half-year of 2002 compared to a loss of HK\$86,725,000, after accounting for impairment of assets, totalling HK\$88,880,000, for the corresponding period last year. The improvement was due to further reduction of the Group's operating expenses and further improvement in the average gross profit margin of the Travel and Tourism Division.

- Travel and Tourism Division

Total turnover for the Group's travel and travel-related services for the six months ended 30th June, 2002 amounted to HK\$260,055,000, a decrease of 13.8% as compared to HK\$301,832,000 for the corresponding period in 2001. The operating results were a profit of HK\$2,587,000 for the first half-year of 2002, an improvement of HK\$5,173,000 as compared to the loss of HK\$2,586,000 for the same period last year.

The total turnover for the Travel and Tourism Division for the six months ended 30th June, 2002 was lower than the corresponding period last year by HK\$41,777,000 as long haul regions had yet to recover from the 11th September, 2001 incident in USA. However, the decrease in turnover for long haul regions was partly offset by an improvement in turnover for other destinations such as Japan, Taiwan and Thailand.

The improvement in the operating results of the Travel and Tourism Division was attributable to a further improvement in the average gross profit margin and a further reduction of operating expenses.

- Property Division

Property development and agency services remain the Group's major earnings contributor in 2002. The turnover of the

Property Division for the six months ended 30th June, 2002 amounted to HK\$62,684,000, representing a decrease of 10.3% compared with the corresponding period last year. The Group's property sales during the first half-year of 2002 was affected by the current state of economy in Hong Kong SAR as nearly 100% of the purchasers of MSV in Zhongshan, PRC are from Hong Kong SAR. Earnings contribution from the Property Division for the six months ended 30th June, 2002 amounted to HK\$16,958,000, which is lower than the same period last year by HK\$13,844,000. The decrease in earnings contribution was mainly due to the downward adjustment in pricing and lower construction cost last year.

To-date, about 95% of the units of Phase I to VII of MSV have been sold. The construction of Part III of Phase VII was completed in March 2002 and delivery of the housing units started in April 2002. Following the success of Phase VII, Canale DiVenezia, the construction of Phase VIII of MSV is scheduled to commence soon and pre-sale of the housing units is expected to be launched during the first half-year of 2003.

As for MSP in Zhongshan, PRC, the construction work of Part I of the Western site of 50 mu commenced in May 2002. The development of the Western site includes both commercial and residential units, together with clubhouse facilities. The pre-sale of Western site is expected to be launched towards the end of 2002.

- Hotel Division

Total turnover for the Group's hotel investment and management business for the six months ended 30th June, 2002 amounted to HK\$14,134,000 as compared to HK\$8,956,000 for the corresponding period in 2001. The operating results amounted to a profit of HK\$445,000 for the six months ended 30th June, 2002 as compared to a loss of HK\$6,493,000 for the corresponding period in 2001. The improvement in both turnover and operating results was mainly



due to the completion of a major refurbishment programme in May 2001 for Corus Grosvenor hotel in Adelaide, which affected its business during the first half-year of 2001.

With the Group's acquisition of a 40% interest in Plaza On Hyde Park Limited in 2001, the Group has equity accounted for its results which amounted to a profit of HK\$2,640,000 for the six months ended 30th June, 2002.

- Financial Services Division

Total turnover of the Group's financial services business for the six months ended 30th June, 2002 amounted to HK\$839,000 as compared to HK\$1,010,000 for the corresponding period in 2001. The turnover of the Financial Services Division is mainly derived from securities broking. The decrease was due to the current subdued stock market characterised by diminishing trading activities. The Financial Services Division incurred a loss of HK\$751,000 for the first half-year of 2002 as compared to a profit of HK\$644,000 for the corresponding period in 2001.

- Corporate and Other Businesses

The turnover for other operations, representing rental income received by the Group in respect of certain leased office space in AXA Centre amounted to HK\$43,000 for the first half-year of 2002 as compared to HK\$1,101,000 for the corresponding period in 2001.

In respect of the Group's investment in 1,500,000 shares of the 10% convertible cumulative preferred stock ("Preferred Stock") in Porchlight Entertainment, Inc. ("PEI") for a total consideration of US\$1,500,000 in 2001, PEI declared dividends on the Preferred Stock by way of bonus issues. For the six months ended 30th June, 2002, PEI declared a bonus issue to the Group totalling 76,625 shares of Preferred Stock. After taking into consideration of the bonus issues received for the

six months ended 30th June, 2002 and the year ended 31st December, 2001, the Group holds a total of 1,621,830 shares of Preferred Stock in PEI. The dividend received by the Group for the six months ended 30th June, 2002, amounting to HK\$598,000 in value, is included in other revenue of the Group.

- Geographical Segments

For geographical segments analysis, the revenue and results for Hong Kong SAR mainly relate to travel and travel-related services, financial services and other businesses. The revenue and results for elsewhere in the PRC are principally from property development and agency services. The revenue and results for Australia are derived from hotel investment and management services. The revenue and results for other countries include certain travel and travel-related services conducted outside of Hong Kong SAR.

## REVIEW OF BALANCE SHEET

- Overview

Non-current assets of the Group as at 30th June, 2002 amounted to HK\$314,728,000, an increase of HK\$10,979,000 as compared to HK\$303,749,000 as at 31st December, 2001. Non-current assets mainly consist of fixed assets, investment properties, interests in jointly-controlled entities, interest in associates, long term investments, and pledged bank balances and time deposits. There were little changes in the individual items of non-current assets since 31st December, 2001. Current assets of the Group as at 30th June, 2002 totalled to HK\$438,427,000, against HK\$444,436,000 as at 31st December, 2001. Current liabilities of the Group as at 30th June, 2002 amounted to HK\$331,676,000, compared with HK\$332,441,000 as at 31st December, 2001.

- Capital Structure, Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings was HK\$184,209,000, comprising mainly short-term bank borrowings, with interest rates ranging from 3.550% to 6.875% per annum fixed at each drawdown date. The Group's banking facilities are mainly denominated in Hong Kong dollars and the total available banking facilities not utilised as at 30th June, 2002 amounted to HK\$59,198,000.

The Group's total current and long term debts as at 30th June, 2002 was HK\$184,209,000 as compared to HK\$185,167,000 as at 31st December, 2001. The Group's total equity as at the balance sheet date was HK\$271,948,000 as compared to HK\$253,672,000 as at 31st December, 2001. The Group's gearing ratio as at 30th June, 2002 was 0.68 as compared to 0.73 as at 31st December, 2001. The computation was based on total current and long term debts over the total equity of the Group.

In order to achieve a better control of treasury operations, the Group centralises funding for all of its operations at the Group level. The Group's foreign currency exposure relates mainly to Japanese yen which is required by one of the Group's major subsidiaries, Morning Star Travel Service Limited, for settlement of tour costs incurred in Japan. The Group manages its Japanese yen exposure by way of forward exchange contracts with its principal bankers.

- Capital Commitments

The Group had capital commitments totalling HK\$228,116,000 as at the balance sheet date. The capital commitments mainly related to the Group's property projects in Zhongshan, PRC. They will be satisfied by funds generated from the sale of properties and from the Group's available cash and banking facilities.

- Charges on Group assets

As at the balance sheet date, certain assets of the Group with an aggregate carrying value of HK\$140,482,000 were pledged to certain banks to secure banking facilities granted to the Group. In addition, non-current bank balances and time deposits amounting to HK\$10,486,000 have been pledged to certain banks to secure mortgage loans granted to purchasers of the properties developed by MSV and MSP.

- Contingent Liabilities

As at the balance sheet date, the Group had contingent liabilities amounting to HK\$372,745,000. The contingent liabilities were mainly in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and MSP.

## STAFF ANALYSIS

The total number of staff employed by the Group as at 30th June, 2002 was 635 as compared to 607 as at 31st December, 2001. The Group ensures that the remuneration levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Currently, the Group does not have any share option scheme for employees. The Group has implemented a Total Quality Management programme as part of its overall human resource training and development programme to equip its employees with the necessary skills to deal with the challenges and competition ahead.

## NEW BUSINESS AND MATERIAL ACQUISITION

On 5th March, 2002, the Group entered into a sale and purchase agreement with Firstway, for the acquisition of 8,192,500 ordinary shares in MSFS for a consideration of HK\$8,684,050. After the completion of this transaction in April 2002, the Group's interest in MSFS increased from 59.27% to approximately 78.35%.

In 2002, the Group will focus on the development of Phase VIII of MSV and the Western site of MSP. At the same time, the Group is actively exploring other potential property projects for expansion.

## DIRECTORS' INTERESTS IN SHARE CAPITAL AND WARRANTS

As at 30th June, 2002, the interests of the Directors in the share capital and warrants of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which are required to be disclosed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, were as follows:

### (i) The Company

#### (1) Shares

Name of Director	Number of shares held		Total
	Personal interests	Corporate interests	
Tan Sri Dr. KHOO Kay Peng	—	1,764,037,657	1,764,037,657
		(Note)	
CHEANG Yoon Hoong	19,918,500	—	19,918,500
KHET Kok Yin	6,807,500	—	6,807,500
LOY Yet King	19,450,000	—	19,450,000

#### (2) Warrants

Name of Director	Number of units of warrants held		Total
	Personal interests	Corporate interests	
Tan Sri Dr. KHOO Kay Peng	—	200,716,650	200,716,650
		(Note)	
CHEANG Yoon Hoong	2,396,210	—	2,396,210
KHET Kok Yin	2,456,842	—	2,456,842
LOY Yet King	12,284,210	—	12,284,210

## (ii) Associated corporation

	Name of Director	Nature of interests	Number of shares held
Morning Star Financial Services Limited ("MSFS")	Tan Sri Dr. KHOO Kay Peng	Corporate (Note)	8,192,500 ordinary shares of HK\$1 each

As at 30th June, 2002, certain Directors also held qualifying shares in some subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

*Note: 979,572,985 shares issued by the Company and 8,192,500 shares issued by MSFS were held by Firstway International Investment Limited ("Firstway"), and 784,464,672 shares and 200,716,650 warrants issued by the Company were held by Bonham Industries Limited ("Bonham"). Both of Firstway and Bonham are companies controlled by Tan Sri Dr. KHOO Kay Peng.*

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate, or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the interests of persons, other than the Directors, owning 10% or more of the share capital of the Company as recorded in the register required to be kept under Section 16 of the SDI Ordinance were as follows:

Name	Number of shares held
Norcross Limited — Note (a)	979,572,985
Cherubim Investment (HK) Limited — Note (a)	979,572,985
Firstway — Note (b)	979,572,985
Bonham — Note (b)	784,464,672

Notes:

- (a) *The interests of these companies in the shares of the Company are included in the interests held by Firstway.*
- (b) *The aggregate of the interests of Firstway and Bonham in the shares of the Company has also been disclosed by Tan Sri Dr. KHOO Kay Peng under "Directors' interests in share capital and warrants" above.*

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

## **AUDIT COMMITTEE**

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim results of the period. The audit committee constituted two Independent Non-Executive Directors and a Non-Executive Director of the Company.

By Order of the Board  
**CHEANG YOON HOONG**  
*Managing Director*

Hong Kong, 7th September, 2002